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E.O. 12958: DECL: 03/07/2018  
TAGS: [EUN](#) [IT](#) [KNNP](#) [PARM](#)  
SUBJECT: INFORMATION ON BANK MELLI FOR ITALY,S  
CONSIDERATION IN EU DISCUSSIONS ON AUTONOMOUS SANCTIONS

Classified By: ISN PDAS Patricia A. McNerney  
for reasons 1.4 (b) and (d)

[1](#)1. (U) This is an action request. Please see paragraph 3.

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SUMMARY  
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[1](#)2. (S) The EU is expected to consider sanctions against Iran the week of March 10. On February 6, EU experts prepared a list of 19 new entities and 15 new individuals to be designated under the EU's Common Policy on Restrictive Measures Against Iran. EU Member States agreed implicitly that the new designations would not actually be implemented until after the adoption of the third sanctions UNSCR, but they planned to go ahead with preparations so that EU foreign ministers could approve the new measures at their monthly meeting (GAERC) on March 10-11. However, the Italians (followed by the Cypriots) subsequently insisted on placing a "hold" on the entire process, delaying even the technical work of preparing a new list of entities for designation until the third UNSC sanctions resolution was approved. The third UNSC sanctions resolution was approved on March 3 and we would like the EU both to implement the new resolution as quickly as possible and to move forward with autonomous actions immediately. The Italians have recently indicated that they are likely to lift the hold on all of the entities and individuals on the EU list, except Bank Melli.

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OBJECTIVE/ACTION REQUEST  
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[1](#)3. (S) Washington requests Embassy Rome deliver the nonpaper in paragraph 4 to Italy's Director General for Multilateral Affairs and Human Rights Giulio Terzi, for Italy's consideration in discussions with EU partners on autonomous sanctions on Iran and as a follow up to A/S Fried's conversation with Terzi. Treasury U/S Levey shared the nonpaper with Italy's Ambassador to the U.S. late afternoon March 7, but in the interest of time, Embassy Rome should ensure delivery to DG Terzi prior to his departure for the GAERC meeting on Monday. Embassies London and Paris should inform appropriate host government officials that we are sharing information with Italy on Bank Melli that is similar to the information we shared with the P5 in January 2008.

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S/REL NONPAPER ON BANK MELLI'S ACTIVITIES  
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[1](#)4. BEGIN S/REL NONPAPER

(U) BANK MELLI'S ROLE IN IRAN'S PROLIFERATION NETWORK

(U) Overview

(S//REL TO USA, ITA) Information available to Treasury indicates that Bank Melli has facilitated numerous transactions with Iranian proliferation entities and others listed under the asset freeze provisions of UNSCRs 1737 and 1747, including transactions that took place following the date of these entities' designations. This information, which is summarized below, is cause for concern and should be taken into consideration as we develop options for increasing financial pressure on Iran.

(U) Iran employs several sophisticated deceptive financial practices that obscure the true nature of the activities of entities such as Bank Melli. Thus, an investigation of Bank Melli's activities could find that its activities appear benign when Iran is really using deceptive practices to continue its proliferation and terrorism activities.

(U) Background on Bank Melli

(U) Bank Melli, Iran's largest bank, is a state-owned institution founded in 1928. Its assets as of March 2005 were over \$35 billion, according to Banker's Almanac. Bank Melli has over 3,000 domestic branches and 16 foreign branches.

(U) Through its role as a financial conduit, Bank Melli has facilitated numerous purchases of sensitive materials for Iran's nuclear and missile programs. In doing so, Bank Melli has provided a range of financial services on behalf of Iran's nuclear and missile industries, including opening letters of credit and maintaining accounts.

(S//REL TO USA, ITA) Bank Melli provides such banking services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the UN for their involvement in those programs. This includes handling transactions in recent months for Bank Sepah, Aerospace Industries Organization (AIO), Defense Industries Organization (DIO), Shahid Bakeri Industrial Group (SBIG), Shahid Hemmat Industrial Group (SHIG), Mesbah Energy Company, Energy Novin and the Islamic Revolutionary Guard Corps (IRGC).

(U) Bank Sepah (Sepah)

(U) Following the designation of Bank Sepah under UNSCR 1747 in March 2007, Bank Melli took precautions not to identify Sepah in transactions. Bank Sepah has also layered transactions through other Iranian banks to hide Bank Sepah's role when routing funds internationally.

-- (U) Bank Sepah routed a payment through Bank Melli in Tehran and a Bank Melli branch abroad to a foreign bank. Because Bank Melli is not under international sanctions, the funds can be routed internationally.

(U) Bank Sepah has increasingly relied on third party and private banks. Private Iranian banks and foreign financial institutions and jurisdictions that lack proper due diligence or have other systemic weaknesses are most attractive.

-- (S//REL TO USA, ITA) The Hong Kong branch of Bank Melli PLC, a UK-based subsidiary of Bank Melli, facilitated transactions involving Bank Sepah after Sepah's E.O. 13382 designation.

(S//REL TO USA, ITA) Bank Melli was facilitating a transaction in April 2007 involving a North Korean shipment to Iran; the cargo was consigned to Bank Sepah.

(U) Aerospace Industries Organization (AIO)

(S//REL TO USA, ITA) Intermediaries used Bank Melli accounts

to receive payments from subordinates of Iran's E.O. 13382 designee Aerospace Industries Organization (AIO), which oversees Iran's R&D and production of missiles and rockets.

(S//REL TO USA, ITA) Bank Melli in mid-2007 facilitated payments from companies associated with AIO.

(U) Defense Industries Organization (DIO)

(S//REL TO USA, ITA) The DIO, which conducts research and development for Iran's defense and military forces and produces a wide variety of military-related weapons, technologies, and other equipment, uses Bank Melli/Hamburg to receive payments and to transfer funds.

(S//REL TO USA, ITA) In mid-2007, Bank Melli facilitated two payments for DIO.

(U) Shahid Bakeri Industrial Group (SBIG)

(S//REL TO USA, ITA) Between April and July 2007, Bank Melli was listed as the consignee on multiple purchases for a company affiliated with SBIG.

(U) Shahid Hemmat Industrial Group (SHIG)

(S//REL TO USA, ITA) If a deal negotiated during March 2007 between a SHIG front company and a Swiss firm were finalized, financing would be arranged through Bank Melli.

(U) Mesbah Energy Company and Energy Novin

(S//REL TO USA, ITA) Two entities associated with Iran's nuclear program, Mesbah Energy Company and Energy Novin, held accounts at Bank Melli until at least late 2005.

(U) Islamic Revolutionary Guard Corps (IRGC)

(U//FOUO) Iran's Islamic Revolutionary Guard Corps (IRGC) relies heavily on Bank Melli Iran, Bank Mellat Iran and the Central Bank of Iran for the provision of banking services. These banks hold deposits, send and receive funds for domestic and international payments, and handle letters of credit on behalf of the IRGC. Several elements of the IRGC rely on Bank Melli, Bank Mellat and the Central Bank of Iran, including organizations headed by UNSCR 1737 & 1747 designees Yahya Rahim Safavi and Ghassem Soleimani, as of July 2007.

(U//FOUO) IRGC-controlled Companies' use of Bank Melli & Bank Mellat

(S//REL TO USA, ITA) Bank Melli and Bank Mellat are the principal banks used by Khatam al-Anbiya, an IRGC-controlled construction and engineering company headed by UNSCR 1737 designee and former IRGC Commander Rahim Safavi, as of July 2007. Khatam al-Anbiya serves as an important source of funding for the IRGC, as the organization has been awarded Iranian government contracts in recent years estimated to total over USD \$7 billion.

-- (S//REL TO USA, ITA) From 2002 through 2007, Bank Melli and Bank Mellat sent and received payments totaling nearly USD \$100 million for Khatam al-Anbiya.

-- (S//REL TO USA, ITA) Bank Melli and Bank Mellat also aid the IRGC's Khatam al-Anbiya and its subsidiaries by handling their letters of credit. These letters of credit are primarily used to finance Khatam al-Anbiya's purchase of equipment and services from overseas suppliers.

-- (S//REL TO USA, ITA) Khatam al-Anbiya subsidiaries serviced by Bank Melli and/or Bank Mellat include Ghorb Nooh, Sepasad, Sahel Consultant Engineers and Gharargah Sazandegi Ghaem.

(U//FOUO) IRGC-Qods Force use of Bank Melli & the Central Bank of Iran

(S//REL TO USA, ITA) Bank Melli and the Central Bank of Iran also provide crucial banking services to the Qods Force, the IRGC's terrorist supporting arm that was headed by UNSCR 1747 designee Commander Ghassem Soleimani. Soleimani's Qods Force leads Iranian support for the Taliban, Rizballah, Ramas and the Palestinian Islamic Jihad.

-- (U) Entities owned or controlled by the IRGC or the Qods Force use Bank Melli for a variety of financial services. From 2002 to 2006, Bank Melli was used to send at least \$100 million to the Qods Force.

(U//FOUO) Bank Melli use of Deceptive Banking Practices

(U//FOUO) When handling financial transactions on behalf of the IRGC, Bank Melli has employed deceptive banking practices to obscure its involvement from the international banking system. For example, Bank Melli has requested that its name be removed from payment instructions for US dollar denominated transactions.

END S/REL NONPAPER

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REPORTING DEADLINE  
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¶5. (U) Post should report results by close of business Monday, March 10. Please slug replies for ISN, T, Treasury, NEA, and EUR/WE. Please include SIPDIS in all replies.

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POINT OF CONTACT  
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¶6. (U) Washington point of contact for follow-up information is Anthony Ruggiero, ISN/CPI, (202) 647-5181, ruggieroaj@state.sgov.gov, or Jennifer Chalmers, ISN/CPI, (202) 647-9715, chalmersja@state.sgov.gov.

¶7. (U) Department thanks Posts for their assistance.  
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